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SUBJECT: RESPONSE: IMPACT OF RISING FOOD/COMMODITY PRICES - IRELAND

Ref: (A) Dublin 219

(B) State 39410

¶1. Summary: Despite being a surplus producer of meat and livestock products, Irish consumers have in recent months seen a sharp and sudden increase in food prices especially in two commodities - milk and bread. While there has been media attention given to the rise in prices, consumers seem to have taken the increases in stride, blaming world market conditions. End Summary.

¶2. Irish consumers have been shielded for many years from rapid or sudden increase in food prices through the mechanisms of the EU's Common Agricultural Policy (CAP). In the past year, however, they, like consumers around the globe, have met with unexpected price increases. In particular, there have been sharp increases in milk, dairy products and bread.

¶3. Ireland consumes just twenty percent of the milk it produces and exports the rest worldwide. Given this surplus, Irish consumers have not experienced significant price increases for items such as milk and butter. However in the past year, the prices of all dairy products have taken a significant jump and consumers have been taking notice of weekly shopping bills. Coupled with this, the price of bread has also risen significantly as Ireland, a deficit producer of milling wheat, must import grain or flour.

¶4. There has been little consumer or media reaction to increases in meat prices, which, based on anecdotal evidence, have also risen. Local experts say this is due to an increase in feed costs. Increased EU prices for meat -- especially beef -- rarely affect domestic prices as Ireland is already a significant exporter of beef, with ninety percent of production exported annually.

¶5. These food price increases have significantly impacted prices, with the overall Irish rate of inflation rising to 5 percent for the year ending in March 2008. By comparison, the subset of prices for food and non-alcoholic beverages rose by 9.3 percent in the same period -- almost twice the overall rate of inflation.

¶6. Irish farmers have become more vocal of late about the food price environment. The Irish farming lobbies are agitated with the EC Trade Commissioner's stance at the WTO negotiations (Ref A). They worry that the Irish agriculture industry will suffer if the EU agrees to lower import tariffs. Lower import tariffs could eventually drive down prices and, indeed, the Irish agricultural sector could suffer. While Irish consumers would welcome lower prices, the farming lobby is very strong and we expect it will guard its turf.

Faucher